



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 30, 1999

H.R. 1071 **Montgomery GI Bill Improvements Act of 1999**

As introduced on March 11, 1999

SUMMARY

H.R.1071 would increase benefits under the Montgomery GI Bill (MGIB) in several ways. The largest increase would benefit veterans and servicemembers who serve on active duty for at least four years after September 30, 1999. Such individuals would receive an increased stipend and payments for tuition, fees, and books when they use their MGIB entitlement. The full annual costs of that provision would not be realized until several years after enactment. CBO estimates that implementing the bill would cost about \$6.5 billion over the 2000-2004 period and that annual costs would reach \$4.7 billion in 2009 and level off thereafter (except for cost-of-living-allowances after 2009). Because the bill would affect direct spending, pay-as-you-go procedures would apply.

Section 4 of the Unfunded Mandates Reform Act excludes from application of that act any legislative proposals that are necessary for national security. That exclusion might apply to H.R. 1071. In any case, the bill contains no intergovernmental or private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R.1071 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans' affairs).

Enhanced Benefit for Certain Veterans

Under current law, participants in MGIB who serve at least three years on active duty are entitled to receive \$528 a month if they are full-time students. That stipend is available for a total of 36 months. For part-time students, the monthly benefit is reduced proportionately

ESTIMATED BUDGETARY IMPACT OF H.R. 1071 AS INTRODUCED (By fiscal year, in millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
VETERANS' READJUSTMENT BENEFITS											
Spending Under Current Law											
Estimated Budget Authority	1,340	1,313	1,332	1,340	1,355	1,352	1,357	1,366	1,382	1,405	1,431
Estimated Outlays	1,372	1,342	1,352	1,358	1,370	1,365	1,366	1,371	1,384	1,406	1,432
Proposed Changes											
Enhanced Benefit for Certain Veterans											
Estimated Budget Authority	0	1	8	28	68	327	952	1,769	2,524	3,312	3,996
Estimated Outlays	0	1	8	28	68	327	952	1,769	2,524	3,312	3,996
Basic Benefit											
Estimated Budget Authority	0	759	770	775	787	665	522	364	190	195	200
Estimated Outlays	0	759	770	775	787	665	522	364	190	195	200
Member Contributions											
Estimated Budget Authority	0	197	195	195	195	195	195	195	195	195	195
Estimated Outlays	0	197	195	195	195	195	195	195	195	195	195
Accelerated Payments											
Estimated Budget Authority	0	230	47	0	0	0	0	0	0	0	0
Estimated Outlays	0	230	47	0	0	0	0	0	0	0	0
Enrollment of VEAP Participants											
Estimated Budget Authority	0	20	52	102	142	204	175	160	123	63	21
Estimated Outlays	0	20	52	102	142	204	175	160	123	63	21
Training for Technological Occupations											
Estimated Budget Authority	0	94	88	90	96	106	129	162	190	227	261
Estimated Outlays	0	94	88	90	96	106	129	162	190	227	261
Tests for Licensing or Certification											
Estimated Budget Authority	0	1	1	2	2	2	2	2	2	2	2
Estimated Outlays	0	1	1	2	2	2	2	2	2	2	2
Preparatory Courses											
Estimated Budget Authority	0	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	0	1	1	1	1	1	1	1	1	1	1
Elimination of Education Requirement											
Estimated Budget Authority	0	6	5	5	6	6	8	10	11	14	16
Estimated Outlays	0	6	5	5	6	6	8	10	11	14	16
Subtotal-Proposed Changes											
Estimated Budget Authority	0	1,309	1,168	1,199	1,297	1,507	1,983	2,662	3,237	4,009	4,693
Estimated Outlays	0	1,309	1,168	1,199	1,297	1,507	1,983	2,662	3,237	4,009	4,693
Total Spending Under H.R. 1071											
Estimated Budget Authority	1,340	2,622	2,500	2,539	2,652	2,859	3,340	4,028	4,619	5,414	6,124
Estimated Outlays	1,372	2,651	2,520	2,557	2,667	2,872	3,349	4,033	4,621	5,415	6,125

but can be spread over a larger number of months up to the equivalent of 36 months of full-time training. Similarly, individuals who serve two years on active duty are entitled to a monthly stipend of \$429 for 36 months. In all cases, the benefits increase by an annual cost-of-living allowance (COLA) and expire 10 years after the end of military service.

Section 2 of H.R.1071 would enhance the benefit in two ways for individuals who serve on active duty for at least four years after September 30, 1999. First, the bill would raise the monthly stipend to \$800. Second, an additional payment would cover the cost of tuition and fees at any approved educational institution plus an amount to defray the cost of books and supplies. CBO estimates that the cost in 1999 dollars of tuition, fees, and books would average about \$25,900 over 36 months of full-time training. As under current law, the stipend would be indexed to the consumer price index and eligibility for educational benefits would expire 10 years after discharge from active duty.

CBO estimates that the cost of these enhanced benefits would be about \$430 million over the first five years, \$13 billion over the first 10 years, and about \$4 billion annually thereafter (plus COLAs after 2009). Annual costs would be lower during the first few years because the first cohort of beneficiaries would not qualify for the extra benefits until 2004. Only individuals who are discharged early for medical causes, hardship, or the convenience of the government would be eligible for limited benefits before the four-year period ends.

Estimated Participation. Based on data from the Department of Defense (DoD) and the Department of Veterans Affairs (VA), CBO estimates that about 358,000 persons would be receiving benefits each year by 2009. Most of those participants would draw benefits after leaving service under normal circumstances (other beneficiaries are discussed below). Based on data from DoD on the typical size of entering cohorts, attrition rates, and types of separation, CBO estimates that about 238,000 individuals will leave active duty each year. About 135,000 of those individuals would meet the bill's criterion for length of service, and an estimated 13,000 of those leaving service would qualify for partial benefits. In addition, about 20,000 of the 236,000 separations will be for medical reasons. Of those, approximately 65 percent would qualify for full benefits and 35 percent for partial benefits.

CBO used information from VA on participation rates to estimate the number of people leaving service who would use the benefit each year. However, because the bill would sharply increase the value of the benefits, CBO assumed that it would induce 25 percent greater participation. Of the 358,000 individuals who would receive benefits in 2009 under the bill, about 309,000 would be veterans who met the most common criteria for benefits.

The remaining 49,000 beneficiaries would be traceable to two other categories of individuals. First, CBO estimates that about 19,000 persons on active duty would take advantage of the benefit for tuition, fees, and books to take courses during their off-duty hours. CBO assumes

that such individuals remain a constant proportion of all participants, currently about 6 percent.

Second, the bill would provide an increase in benefits for certain disabled veterans who receive training and rehabilitation under chapter 31 of title 38. Because those individuals have the option of receiving benefits under either the MGIB or chapter 31, the bill would encourage many of them to opt for the higher allowances and assistance under the enhanced MGIB. Under current law, benefits under chapter 31 are often more generous than under MGIB, but MGIB benefits under H.R. 1071 would exceed current chapter 31 benefits for nearly all disabled veterans. Since many of these trainees left active duty with less than four years of service, however, their eligibility under this bill would be limited to one month of benefits for each month of service on active duty. The rehabilitation program has a long eligibility period. Based on information from DoD and VA, CBO estimates that the full effect of this bill would not be felt in this program until 2014, when approximately 85 percent of disabled trainees would choose to be paid the higher MGIB payments. In 2009, CBO estimates that 30,000 disabled veterans would opt to be paid the greater amount.

Estimated Average Benefits. CBO estimates that the average annual benefit under the bill (in fiscal year 2000 dollars) would be about \$12,400 for veterans and \$1,700 for servicemembers. CBO used data from VA to estimate the proportions of individuals attending graduate, undergraduate, and various nondegree programs and the shares that train on a full-time and part-time basis. The estimate also employs data from the National Center for Education Statistics on tuition costs for private, public, and proprietary schools and on the distribution of veterans among students at such schools.

CBO estimates that 30 percent of veterans receiving educational benefits under the bill would attend a private institution for an undergraduate degree. That proportion is about double the figure under current law because the bill would eliminate the cost differential between private and public institutions for eligible veterans. CBO estimates that average tuition benefits would be about \$5,500 in 2000 for veterans receiving benefits under the bill. The cost of books is estimated to be \$600 annually for a full-time student, based on the amount that universities use to determine a student's financial need. Adjusting for part-time students, the average payment for books under the bill is estimated to be about \$550 in 2000 dollars. The average stipend, also adjusted for part-time study, would be an estimated \$6,400. Thus, the total benefit for training under the bill would average about \$12,400, compared to about \$3,300 under current law for MGIB beneficiaries and \$8,000 for current beneficiaries under chapter 31. Servicemembers would not receive a stipend and, on average, take a much lighter class load. Their average benefit would be \$1,700 compared to about \$800 under current law.

Potential Impact on Student Loans. It is likely that fewer veterans would seek student loans after receiving higher MGIB benefits. CBO does not have enough information about the number of veterans receiving student loans to estimate the magnitude of this response—but any resulting reduction in the costs of student loans would be much smaller than the added costs for MGIB benefits.

Rates of Basic Assistance

Section 3 would raise the rate of educational assistance to certain veterans with service on active duty. Participating veterans who served at least three years on active duty would receive as much as \$900 a month instead of the \$528 a month provided under current law. Similar veterans with at least two years of active duty would be eligible for a maximum benefit of \$730 a month, an increase of \$301 dollars a month. Under section 301, the cost-of-living allowance scheduled for 2000 would not occur. CBO estimates that this provision would increase direct spending by an average of \$770 million a year over the 2000-2003 period. The cost would then gradually decline to \$200 million a year in 2009, as an increasing number of veterans became eligible for the higher benefits provided under section 2 of this bill. (If section 2 were not enacted, the costs of enacting section 3 would be about \$1 billion a year through 2009.)

Termination of Member Contributions

Under current law, MGIB participants must pay a \$1,200 fee during their first year of service. Section 4 would repeal that requirement. Based on current rates of participation provided by the Department of Defense, CBO estimates that this provision would result in forgone receipts of about \$195 million a year.

Accelerate Education Payments

Section 5 would permit veterans to receive a lump-sum payment for benefits they would receive monthly over a term of their training—for example, a semester in college or, for other forms of training, the period of a course's instruction. CBO estimates that this provision would increase direct spending by about \$228 million in 2000 and \$46 million in 2001. Increased costs would occur initially as payments from one fiscal year are made instead in the preceding year. There would be little or no net effect in subsequent years because payments shifted to the preceding year would be offset by payments shifted from

the following year. CBO estimates that about 50 percent of MGIB beneficiaries would elect to receive an accelerated payment in 2000 and that a total of 60 percent would make that election in 2001 and later years.

Enrollment of VEAP Participants

Section 9 would give certain individuals on active duty the opportunity to enroll in MGIB. That opportunity would be extended over an 18-month period to individuals on active duty who either enrolled in or disenrolled from the Post-Vietnam Era Veterans' Education Assistance Program (VEAP). Unlike previous open seasons, this provision would allow eligible members to convert or enroll without paying the normal contribution. Moreover, those servicemembers with balances remaining in their VEAP accounts would receive refunds upon conversion. Consequently, CBO expects that nearly all 120,000 eligible servicemembers would enroll and that approximately 45 percent of them would train. But because they are older than most trainees, only 10 percent would train full time. CBO estimates the annual training costs would peak in 2004 at about \$200 million. The 10-year cost would be about \$1.1 billion.

Training for Technological Occupations

Section 8 would expand education allowed under MGIB to include training required for certification in technological occupations. Based on information from the VA and local technical training schools, CBO estimates this would increase the trainee population by about 5 percent at a 10-year cost of \$1.5 billion.

Tests for Licensing or Certification

Section 6 would extend MGIB benefits to cover the cost of tests required by federal, state, or local governments for occupational licensing. Based on a study prepared for the Congressional Commission on Servicemembers and Veterans Transition Assistance, CBO estimates that 24,000 servicemembers separate each year with training in areas that are subject to testing and licensure by civilian authorities. CBO expects that less than half of them would remain in that occupation, be tested, and apply for reimbursement from the VA. CBO estimates the average cost of tests at \$150. Therefore, this provision would increase direct spending by about \$1 million in 2000 and 2001 and \$2 million a year thereafter.

Preparatory Courses

Section 7 would extend MGIB benefits to cover preparatory courses for college or graduate school entrance exams. Veterans who would otherwise consume their entire entitlement would forgo a payment at the end of their training if they use the benefit under this section, but for all other veterans, section 7 would add to spending. CBO estimates that this provision would increase direct spending by about \$1 million a year. The estimate assumes that about 2,000 participants would receive an average benefit of about \$400 for these courses.

Elimination of Education Requirement

To be eligible for MGIB benefits, current law requires servicemembers to have completed the requirements for a high-school diploma or equivalency certificate, or to have completed 12 semester hours toward a standard college degree, before the ending date of the individual's initial period of obligated duty. Section 4(b) would repeal that requirement. In 1998, servicemembers with insufficient educational credentials were 0.8 percent of the enlisted active duty force. CBO estimates that under this provision, 40 percent of these individuals would seek training under MGIB. This would amount to a 0.3 percent increase in costs, or about \$90 million over the 2000-2009 period.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	1,309	1,168	1,199	1,297	1,507	1,983	2,662	3,237	4,009	4,693
Changes in receipts											

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from application of that act any legislative proposals that are necessary for national security. That exclusion might apply to H.R. 1071. In any case, the bill contains no intergovernmental or private-sector mandates.

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